

WEST DUNBARTONSHIRE COUNCIL

Report by the Executive Director of Housing, Environmental and Economic Development and the Executive Director of Education Services

Special Meeting of Housing, Environment and Economic Development Committee: 19 December 2011

Subject: Leisure Services – Proposed Transfer to a New Trust

1. Purpose

- 1.1** The purpose of this report is to seek Committee approval to establish a Charitable Trust for Leisure Services and to conclude the transfer of the Council's Leisure Services to the Trust. For the Committee's information Leisure Services includes leisure centres, community facilities, sports development and active schools.

2. Background

- 2.1** On 3 March 2010 the committee agreed in principle to development of a Leisure Trust Model, authorising the Director to report back to committee no later than October 2010. On 6 October 2010 the committee agreed to the package of services to be included in the Trust, to include the three Leisure Centres, eighteen Community Centres and the Active Schools, Sports Development and Outdoor Education programmes. The Committee also agreed to delegate authority to the Executive Director of Housing, Environmental and Economic Development to progress arrangements for development of a Leisure Trust. It also sought a report outlining the governance options for the Leisure Trust. On 8 June 2011 the committee considered a report on the governance arrangements and agreed to nominate three Councillors to serve on the Trust Board and to delegate authority to the Executive Director of Housing, Environmental & Economic Development to advertise, interview and recruit six independent members, one of whom should be drawn from employees of the Trust or their union representation.
- 2.2** Simultaneously another 3 Housing, Environment & Economic Development Committee Reports relating to a Review of Community Facilities to determine the future of the Community Centres to be transferred to the Trust, were considered on 3 March and 8 December 2010 and 8 June 2011. The Halls being considered include the following:-

Bowling Hall
Denny Civic Theatre
Dumbarton Burgh Hall
Duntocher Hall
Howatshaws Hall
Napier Hall
Skypoint

The West Dumbarton Activity Centre
West Bridgend Hall
Alexandria CL&D Centre
Bonhill CL&D Centre
Clydebank East CL&D Centre
Concord CL&D Centre
Dalmonach CL&D Centre
Dalmuir CL&D Centre
Glenhead CL&D Centre
Hub CL&D Centre
Pheonix CL&D Centre

- 2.3** As part of the Review of Community Facilities the Committee agreed on 8 December 2010 to consult with users of the Halls at Howatshaws, Bowling, Duntocher and the CLD Centres at Phoenix, Dalmonach and Clydebank East to obtain views on community transfer mergers with other facilities or closure.
- 2.4** For clarity it should be noted that the Council's Leisure "Services" to be transferred includes the 3 Leisure Centres, the 18 Halls/CL&D Centres and the Active Schools and Sports Development Programmes.
- 2.5** Progress, to establish the potential to transfer Leisure Services to a new Trust, following the Housing, Environment & Economic Development Committee meeting of 8 June 2011 is shown below:-
- Project Team assembled and met on 4 occasions. The Team includes representatives of all affected Council services, Trades Unions and Council External Advisers.
 - External Advisers appointed. The Legal advisers selected are Biggart Baillie. The Financial Advisers are Ernst & Young.
 - All affected services briefed.
 - In accordance with the Governance arrangements agreed by the Housing, Environment & Economic Development Committee Councillors R. McColl, D McBride and W. McLaughlin were nominated as Council Trustees, selection of 6 external Independent Trustees is in progress.
 - Condition surveys of all properties have been completed.
 - A Business Case (BC) has been completed (See Appendix 1).
 - Legal Documents are being finalised (See Appendix 2).
 - Communication with staff has included multiple briefing sessions; an in-house website for questions and answers, and publication of meeting notes, leaflets etc; and individual one to one drop in discussion sessions.

- Communication with Trade Unions has taken place with the full time officials representing each Trade Union, through Project Team meetings, at JCC sessions and at occasional specific meetings.
- Leisure Centre Users have been consulted through widespread leaflet distribution and discussions with User Forums located in each Centre.
- Consultation with communities relating to the six Community Centres mentioned earlier is continuing. Nothing in these proposals will preclude potential for transfer, closure or retention of the facilities referred to in 2.3.
- An application will be submitted to the office of the Scottish Charities Regulator (OSCR) to obtain charities status for the Trust and a positive response is anticipated early in 2012
- The process to confirm the Trust's status as an Admitted Body of Strathclyde Pension Fund (SPF) is at an advanced stage and employees' details have been communicated to SPF to ensure that everything will be in place to transfer staff to the Trust on the date of transfer.
- A recent review of Outdoor Education Service (OES) indicates that a revised business plan is required to re-align expectations with available funding. Consequently, to minimise the potential for an adverse impact on the Trust at start up stage, it is proposed to delay the transfer of OES to the Trust for at least a year. This delay is intended to accommodate the development, implementation and a trial period of the business plan.

3. Main Issues

3.1 The main issues which have been addressed are:

Legal Agreements between the Council and the Trust

- 3.2** The Council's Legal Advisers, Biggart Baillie, are in the process of finalising the four separate Legal Agreements which will form the basis of the contract between the Council and the Trust. They have prepared an Extract Summary of the Legal Agreements which is shown at Appendix 2. The following commentary has been extracted from the Summary:-
- 3.3** The Council wishes to establish a separate legal entity for delivery of its leisure services (the "Trust"). The Trust will be formed as a new legal entity with charitable status. The charitable status of the Trust will secure various fiscal benefits for both the Trust and ultimately the Council. The target date for implementation of the Trust for delivery of leisure services is 1 April 2012.
- 3.4** Having considered a report assessing the merits of the various legal forms which the Trust may take and other relevant factors, the Leisure Trust Project Board decided that the Trust would be formed as a private company limited by guarantee having charitable status. The internal governance of the Trust and its relationship with the Council will be governed by the Trust's constitution.

3.5 The Trust will be incorporated as a private company limited by guarantee by way of an application to the Registrar of Companies. The Council will be the sole member of the Trust with ultimate control over its activities.

The Trust will be managed by a Board of Directors, the composition of which is commented on in more detail below.

3.6 Following incorporation of the Trust, the Council will transfer to it all business, the majority of its assets and all employees which relate to the provision by it of leisure services, for nominal consideration. As the premises themselves will not be transferred (see 3.8 below) it should be noted that the primary “asset” to be transferred to the Trust will be the Council employees. The Trust and the Council will enter into a Business Transfer Agreement for this purpose.

3.7 In order to secure the ongoing provision of leisure services to the West Dunbartonshire area, the Council will engage the Trust as a service provider to maintain and manage major sports and leisure facilities owned by the Council. The parties will enter into a Services Agreement for this purpose.

3.8 As part of the Trust’s management of the various sports and leisure facilities pursuant to the Services Agreement, the Council will lease the properties (or where appropriate grant licenses to occupy) to the Trust. The Council and the Trust will enter into a separate lease in respect of each property, although the leases will largely follow a standard form. The Council will retain ownership of all premises being leased to the Trust.

3.9 The Council will continue to provide a number of centralised services to the Trust for a transitional period. The parties will enter into a Transitional Services Agreement for this purpose.

3.10 The Trust will adopt a set of Articles of Association on incorporation, which set out the rules for the internal management and governance of the Trust (“the Constitution”). The Constitution will detail:

- the Board of Directors, including the process of their decision making, board meetings, appointment and removal and their powers;
- who is eligible for membership of the Trust (i.e. the Council);
- the organisation of member meetings and voting at those meetings;
- any restrictions on the powers of the Trust.

3.11 The Constitution will be sent to the Office of the Scottish Charity Regulator (“OSCR”) for registration of the Trust as a charity. OSCR can take up to three months to grant an application following confirmation of Council approval to proceed. Registration with HM Revenue and Customs for VAT and Charitable status will be made as soon as possible following registration of the Trust with OSCR.

- 3.12** The Trust will be a distinct legal entity from the Council with power to contract in its own name. However, the Council will be the sole member of the Trust and will have ultimate control over its activities. The Council will also be entitled to appoint various members of the Board of Directors.
- 3.13** The Council will have access to the Trust's records to ensure compliance with the Services Agreement. The Trust will also provide regular monthly revenue statements and there will be a range of performance indicators not only to assist scrutiny but also to comply with Audit Scotland's recent guidance on supporting arms length organisations. The revenue statements and performance measures will form the basis of bi-annual Reports to be made by the Trust to The Housing, Environment & Economic Development Committee.
- 3.14** The Trust will be governed by a Board of Directors. The Directors will all be Charity Trustees in terms of the Charities and Trustee Investment (Scotland) Act 2005 (as amended) and will be subject to various duties and obligations set out in that act. In addition, the Directors will be subject to the duties and obligations set out in the Companies Act 2006.
- 3.15** The Board of Directors will comprise:
- 3 Councillors appointed by the Council ("Partner Directors")
 - 6 Independent Directors appointed following a public recruitment process ("Independent Directors"), one of whom would preferably be nominated by employees of the Trust.
- 3.16** The Charities and Trustee Investment (Scotland) Act 2005 (as amended) prohibits Directors from being remunerated for their position on the Board, other than being reimbursed reasonable travelling expenses. Any Independent Director employed by the Trust will continue to be remunerated as an employee of the Trust.
- 3.17** All employees of the Council engaged in leisure services will also transfer to the Trust in terms of the Transfer of Undertaking (Protection of Employment) Regulations 2006 ("TUPE") and Statutory Guidance To Local Authorities On Contracting (issued under section 52 of the Local Government in Scotland Act 2003). The terms and conditions of employment of staff will remain in place indefinitely. However, these can be varied for business reasons justified by the Trust.
- 3.18** The Trust will become an Admitted Body to the Strathclyde Pension Fund and all existing and new employees of the Trust will have the opportunity to participate in the Scheme. As the Trust is a newly formed entity, the Strathclyde Pension Scheme will require a guarantee from the Council in respect of the Trust's obligations to the Scheme going forward.

Investment

- 3.19** It is proposed that the annual Management Charge payments to be made by the Council to the Trust will be £4,356,000; £4,307,000; and £4,266,000 for years 1, 2 and 3 respectively. The Council's commitment, for years succeeding year 1, will be subject to annual negotiations, to be based on updated business plans which the Trust will present to the Council for agreement. The following Tables illustrate the relevant calculations:-

Table A – Cashflow summary

| | Year 1 2012/13 £'000 | Year 2 2013/14 £'000 | Year 3 2014/15 £'000 |
|--|-------------------------------------|-------------------------------------|-------------------------------------|
| Leisure Trust operating income | 2,460 | 2,501 | 2,542 |
| Leisure Trust operating expenditure | (6,816) | (6,808) | (6,808) |
| Net cash outflow from operations – Management Charge payable by Council | (4,356) | (4,307) | (4,266) |
| Utility payments retained by Council | (734) | (734) | (734) |
| Repairs & maintenance costs retained by Council | (95) | (95) | (95) |
| Element of discretionary NNDR relief funded by Council | (31) | (31) | (31) |
| Trust SLA payments receivable by Council | 249 | 248 | 248 |
| Total cashflow from Council | (4,968) | (4,921) | (4,880) |

Note: The tables presenting the results of the financial analysis are presented in nominal terms. In line with WDC budgetary protocol, indexation has been applied at 2% for lets and admissions, 0% for other income categories and 0% for all expenditure.

- 3.20** The overall financial position illustrated in Table A contributes to an improved position for the Council when compared to the existing delivery model. Table B provides for the purposes of comparison the overall costs that would be associated with the existing model:

Table B – Projected results of the current delivery model

| | Year 1 2012/13 £'000 | Year 2 2013/14 £'000 | Year 3 2014/15 £'000 |
|---------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Cashflows under existing model | | | |
| Operating income | (2,320) | (2,357) | (2,396) |
| Operating expenditure | 7,801 | 7,801 | 7,801 |
| Net deficit | (5,481) | (5,443) | (5,405) |
| Cashflows under Leisure Trust model | (4,968) | (4,921) | (4,880) |
| Improved position for Council | 513 | 523 | 526 |

In line with WDC budgetary protocol, indexation has been applied at 2% for lets and admissions, 0% for other income categories and 0% for all expenditure.

Source: Ernst & Young LLP

3.21 The analysis highlights a projected improved financial position for the Council of £0.513 million in year 1 rising to £0.526 million by year 3. This is before asset and operational efficiencies are identified and taken into account.

3.22 The reasons for the improved positions are set out in Table C. This includes an NNDR exemption gained by the Leisure Trust's charitable status. This provides an 80% mandatory relief from NNDR with the remaining 20% being provided as a discretionary relief from West Dunbartonshire Council.

The mechanism for providing this discretionary relief ensures that 75% of the discretionary relief is funded from the National Non Domestic Rates Pool with the remaining 25% being funded by the awarding local authority. As such, there is a small element of the NNDR advantage that remains a cost to the Council and the NNDR figure in Table C below is net of this cost element.

Table C – Net savings of the Leisure Trust model

| | Year 1 2012/13 £'000 | Year 2 2013/14 £'000 | Year 3 2014/15 £'000 |
|--------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Savings | | | |
| NNDR relief | 600 | 600 | 600 |
| VAT savings on revenues | 140 | 143 | 146 |
| Additional costs | | | |
| Additional Leisure Trust costs | (186) | (179) | (179) |
| Irrecoverable VAT | (41) | (41) | (41) |
| Net improved Council position | 513 | 523 | 526 |

In line with WDC budgetary protocol, indexation has been applied at 2% for lets and admissions, 0% for other income categories and 0% for all expenditure.

NNDR relief reflects 80% mandatory charitable relief and 20% discretionary relief, of which 25% would be funded by WDC.

Source: Ernst & Young LLP

- 3.23** The Savings referred to in the Housing, Environment & Economic Development Report of 6 October 2010 was £615,000 for both NNDR and VAT which did not take into account the “Additional Leisure Trust costs” shown above as it was not possible to calculate this at the time. In addition, the required commitment by the Council to absorb the “small element of the NNDR” also referred to above was unknown.

Capital investment requirements

- 3.24** The Council’s limited historical property investment has resulted in a maintenance backlog of approximately £5.8m for all Community Centres and the 3 Leisure Centres as identified in a property condition survey undertaken by the Council. It is proposed to begin to address this by allocating a proportion of the anticipated financial savings. It is proposed to invest in major fixed components of the Leisure Centres which are at risk of failure and have consequent potential for significant loss of facilities and associated income. The investment levels are shown in Table D below.

Table D – Capital investment requirement

| | Year 1 £’000 | Year 2 £’000 | Year 3 £’000 |
|--------------|-------------------------|-------------------------|-------------------------|
| Total | 350 | 350 | 241 |

Source: West Dunbartonshire Council

- 3.25** Such investment will provide a springboard for the Council and Trust to develop a longer term investment strategy to ensure sustainability of the Council’s property, potential for continued Council savings and the Trust’s viability.
The value of the proposed investment is £350,000 per annum for the first two years and £241,000 for the third year. Thereafter it will be for the Council and Trust to determine future investment needs.
- 3.26** An in-house survey is currently being undertaken to refine the identified repairs backlog in the Community Halls to a level that will be acceptable to continued operation of each hall as appropriate. The in-house survey will identify a scale of repair that should be acceptable for most purposes without the commitment to all of the extensive repairs identified in the property condition survey referred to earlier. The outcome will be reported to the Committee at a later date, when available, for consideration of an increase to the Council’s budget allocation for repair and maintenance in the Community Halls.
- 3.27** To ensure that the financial commitments requested from the Council are clear the above Tables are repeated in Section 5 of the Report, “Financial Implications”, where the detail is explained more fully.

Viability

- 3.28** The business to be transferred by the Council to the Trust should be capable of operating within financial parameters identified within the Business Case. If this is achieved viability is reasonably assured, subject to future unknown potentially influential economic factors.
- 3.29** Threats to sustainability and consequent viability have been identified and are shown in the schedule of Risks at Appendix 3. For example, a reduction in the level of threat of reduced income resulting from the impact of the poor condition of certain properties will be achieved if essential investment to partially redress the maintenance & repair backlog, identified in the Council's condition survey report, is committed by the Council. The scale of investment is shown in Table D above.
- 3.30** Additionally, the annual Management Charge payments to be made by the Council to the Trust, referred to earlier, will support continued viability. However, the Services Agreement will incorporate a requirement for both parties to share risks associated with potential deficits or surpluses beyond the anticipated outturn levels featured in the Business Case.

Governance

- 3.31** The undernoted individuals have been selected by formal recruitment process as Independent Directors of the Trust:-
- | | |
|----------------|--|
| Mr K Clark | Practicing solicitor |
| Mr D Smith | Local Government HR Manager |
| Mr J Gunn | Director and Chairman of Nevis Range |
| Mr T Waclawski | Recently Retired Local Government Quality Improvement Officer – Health & Wellbeing |
- 3.32** Recruitment is continuing to fill the 2 remaining Independent Director posts
- 3.33** The new Board will operate in a shadow capacity until the Trust is launched. Whilst the Board cannot, of course, make any formal strategic decisions prior to launch there are several issues that it needs to resolve in advance. This includes individual Directors roles e.g. Chair, Vice Chair, Sub groups etc., Trust branding and acceptance of the Council's proposals.
- 3.34** The shadow Board will also require to conclude other associated issues that will have a bearing on the business set up e.g. HMRC Charities application and bank accounts and stationery provision both of which can take 2/3 months to finalise and are essential to business start up. The time required to set these up is a major reason why Committee approval to proceed to implement at an early date is essential if a 1st April 2012 Trust launch is to be achieved. Delay could result not only in a later launch but also in administrative difficulties that could lead to unwelcome operational problems for the Trust.

Business Location

- 3.35** The Trust requires central office facilities to accommodate the General Manager and associated support staff. In addition, Active Schools and Sports Development services will require to be relocated to Trust operated property.
- 3.36** It is proposed to convert the underutilised upper floor of the Alexandria Community Centre to suitable accommodation. Use of this location will not only provide an appropriate separately identified Trust headquarters but will also contribute economic and social activity to Alexandria town centre, establish a more accessible location for Active Schools and Sports Development and add value to the Council's property. The cost of conversion is estimated at £130,000. It is proposed that this is funded through the Council's modernisation fund to provide a dynamic kick-start to the new West Dunbartonshire Leisure Trust
- 3.37** To accommodate 3 Active Schools staff whose projects are primarily based in the Clydebank area, accommodation has been identified in the Dalmuir CE Centre.

4. People Implications

- 4.1** At the outset of consultation it was clear that the majority of staff felt that the transfer might put their future job, pension etc. security at risk. Reassurances have been given that, although no future guarantees can be provided whether the jobs are located within the Council or otherwise, Leisure Trust jobs may be more secure than if they were to remain in the Council, and that, by obtaining Admitted Body Status to SPF, pensions should be no less secure than with the Council. The reassurances appear to have been widely accepted.
- 4.2** Additionally the terms of the agreements between the Council and the Trust will reflect the Transfer of Undertaking (Protection of Employment) Regulations 2006 ("TUPE") and Statutory Guidance To Local Authorities On Contracting (issued under section 52 of the Local Government in Scotland Act 2003) referred to at 32.17 and as such changes to terms and conditions will require the agreement of the workforce.
- 4.3** It will be necessary to continue to reassure staff up to the time of transfer and perhaps for a short time afterwards until staff feel confident that the "you won't spot any difference" message being presented to them presently is seen to be justified.

5. Financial Implications

- 5.1** A Business Case (BC) has been completed by the Council's Finance Advisers, Ernst & Young. The Executive Summary of their Report is shown at Appendix 1. The following commentary has been extracted from the Executive Summary.

- 5.2** The Trust has the potential to make future operational efficiency savings when compared to the way services are currently operated. However, for reasons of prudence the current financial model of the Trust is largely based on the historic revenues and operating costs of services being transferred from the Council. As a consequence it may be necessary to revisit some of these figures between now and the commencement of the Trust operations. The financial model assumes no asset rationalisation at this time and excludes potential capital developments, such as a proposed new Leisure Centre at Clydebank Waterfront. Legal and financial arrangements will however reflect the fact that there are binding missives for the sale of the existing Playdrome and that other sites may become subject to redevelopment proposals.
- 5.3** The structure allows for exemption from National Non Domestic Rates (“NNDR”). This represents an annual cost saving to the Trust of £0.631 million (in 2012/13 prices). However this includes 80% mandatory relief and 20% discretionary relief awarded by the Council. In providing the discretionary relief 25% of this cost must be met by the awarding Council, with the remaining 75% met by the National Non Domestic Rates Pool. This would reduce the comparable net NNDR benefit to £0.600 million (in 2012/13 prices).
- 5.4** The VAT analysis indicates that the creation of the Trust will generate a VAT benefit of £0.099 million in 2012/13; however, the structure does offer the potential of a more advantageous VAT position in the future should income be increased, due to the likes of concession and pricing reviews or lower VAT-able operating costs arising from efficiencies.
- 5.5** As referred to at 3.23 the Savings shown in the Housing, Environment & Economic Development Report of 6 October 2010 was £615,000 for both NNDR and VAT which did not take into account the “Additional Leisure Trust costs” shown above as it was not possible to calculate this at the time. In addition, the required commitment by the Council to absorb the “small element of the NNDR” also referred to above was unknown. If both had been available at the time the potential savings reported would have been approximately £390,000. The current outturn, therefore, represents an improvement on earlier estimates.
- 5.6** Current proposals will see the responsibility for the operation of the Council’s three Leisure Centres and eighteen Community Centres transferred to the Trust under a lease agreement. The Council would retain ownership of the properties.
- 5.7** The Trust requires a number of back-office and support services to be provided and for the initial three year period from establishing the Trust on 1 April 2012 these would continue to be provided by the Council under a Transitional Services Agreements.

- 5.8** The Transitional Services Agreement will also provide for the delivery of repairs and maintenance services by the Council for Community Halls whilst the Trust will carry out its own property repairs in relation to the Leisure Centres.
- 5.9** Gas and electricity represent a significant ongoing cost for all the facilities and there are significant VAT benefits to energy costs remaining the responsibility of the Council. This will be reflected in the agreements between the Council and the Trust.
- 5.10** Capital repairs and improvements to existing facilities would also rest with the Council. However, the efficiency of the Leisure Trust structure provides a source of funds for capital investment.
- 5.11** Taking these savings into account, the financial modelling indicates the ongoing operations continue to return a deficit over the first three years. This deficit would be deemed to be the cost of providing the Council's leisure services on behalf of the Council. Consequently, the Trust would charge this cost to the Council in the form of a management charge. The quantum of the deficit to be funded through the management charge is shown in Table A below, together with other Council cashflows associated with the Leisure Trust

Table A – Cashflow summary

| | Year 1 2012/13 £'000 | Year 2 2013/14 £'000 | Year 3 2014/15 £'000 |
|--|-------------------------------------|-------------------------------------|-------------------------------------|
| Leisure Trust operating income | 2,460 | 2,501 | 2,542 |
| Leisure Trust operating expenditure | (6,816) | (6,808) | (6,808) |
| Net cash outflow from operations – Management Charge payable by Council | (4,356) | (4,307) | (4,266) |
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| Repairs & maintenance costs retained by Council | (95) | (95) | (95) |
| Element of discretionary NNDR relief funded by Council | (31) | (31) | (31) |
| Trust SLA payments receivable by Council | 249 | 248 | 248 |
| Total cashflow from Council | (4,968) | (4,921) | (4,880) |

Note: The tables presenting the results of the financial analysis are presented in nominal terms. In line with WDC budgetary protocol, indexation has been applied at 2% for lets and admissions, 0% for other income categories and 0% for all expenditure.

- 5.12 The table projects a management charge of £4.356 million in year 1, reducing to £4.266 million in year 3. The overall financial position illustrated in Table A contributes to an improved position for the Council when compared to the existing delivery model. Table B provides for the purposes of comparison the overall costs that would be associated with the existing model:

Table B – Projected results of the current delivery model

| | Year 1 2012/13 £'000 | Year 2 2013/14 £'000 | Year 3 2014/15 £'000 |
|---------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Cashflows under existing model | | | |
| Operating income | (2,320) | (2,357) | (2,396) |
| Operating expenditure | 7,801 | 7,801 | 7,801 |
| Net deficit | (5,481) | (5,443) | (5,405) |
| Cashflows under Leisure Trust model | (4,968) | (4,921) | (4,880) |
| Improved position for Council | 513 | 523 | 526 |

In line with WDC budgetary protocol, indexation has been applied at 2% for lets and admissions, 0% for other income categories and 0% for all expenditure.

Source: Ernst & Young LLP

- 5.13 The analysis highlights a projected improved financial position for the Council of £0.513 million in year 1 rising to £0.526 million by year 3. This is before asset and operational efficiencies are identified and taken into account.

- 5.14 The reasons for the improved positions are set out in Table C:

Table C – Net savings of the Leisure Trust model

| | Year 1 2012/13 £'000 | Year 2 2013/14 £'000 | Year 3 2014/15 £'000 |
|--------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Savings | | | |
| NNDR relief | 600 | 600 | 600 |
| VAT savings on revenues | 140 | 143 | 146 |
| Additional costs | | | |
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| Irrecoverable VAT | (41) | (41) | (41) |
| Net improved Council position | 513 | 523 | 526 |

In line with WDC budgetary protocol, indexation has been applied at 2% for lets and admissions, 0% for other income categories and 0% for all expenditure.

NNDR relief reflects 80% mandatory charitable relief and 20% discretionary relief, of which 25% would be funded by WDC.

Source: Ernst & Young LLP

Capital investment requirements

- 5.15** There is a requirement for significant reinvestment in the building assets used for the delivery of leisure services to ensure they are fit for purpose and do not adversely impact on delivery.
- 5.16** Ernst & Young understand that asset condition surveys have been carried out by the Council and identify a capital investment requirement of £3.1 million in Community Centres and £2.8 million related to the Leisure Centres, with an anticipated minimum level of expenditure, for replacement/renewal of life spent components, for the Leisure Centres as set out in Table D below. The minimum annual spend required for the halls was not available at the time of the preparation of this report.

Table D – Capital investment requirement

| | Year 1 £'000 | Year 2 £'000 | Year 3 £'000 |
|--------------|-------------------------|-------------------------|-------------------------|
| Total | 350 | 350 | 241 |

Source: West Dunbartonshire Council

- 5.17** An underlying presumption of this business case is that the Council will carry out this element of investment and this could be funding in part via the savings generated by the new Trust structure.
- 5.18** In addition to the above, it is anticipated that £0.13 million required for the formation of a new Trust central office within the Alexandra Community Centre may be funded through the Council's Modernisation Fund.

6. Risk Analysis

- 6.1** A list of potential risks and mitigation was prepared by the Council's Financial Advisers as part of the Business Case. The summary table is shown at Appendix 3.

7. Equalities Impact Assessment (EIA)

- 7.1** An equalities impact assessment has been prepared and is attached at Appendix 4. There are no negative impacts.

8. Strategic assessment

- 8.1** The improvements to leisure services throughout West Dunbartonshire, which will result from setting up the new Trust, will increase social and economic regeneration opportunities. Through the introduction of improved leisure services, and an increase in the range on offer, the potential will exist to enhance the health and well being of residents to counter the poor health and unhealthy lifestyles which West Dunbartonshire has unfortunately developed a reputation for.

- 8.2** The establishment of a new business, with associated business opportunities, in Alexandria will increase general activity and the potential to support economic regeneration within the Town. The role that will be played by the combined leisure services in the wider promotion of West Dunbartonshire and its contribution to the tourism market will lead to economic benefits, such as additional direct and indirect income and employment. These benefits might not otherwise materialise should the Council continue to operate the service.
- 8.3** The alternative business model which the Trust offers is an opportunity for not only service improvement but also a reduction in the level of funding required by the Council to support leisure services and an opportunity to re-direct the use of Council savings. Taken together with the potential for the Trust to secure income from sources not available to the Council confirms that the use of Council funds will be optimised.
- 8.4** The integration of the various Services involved - Leisure Centres, Community Halls, Events, Active Schools and Sports Development - will derive significant synergies. These synergies will increase the use of all facilities, improve the quality of operations and assist the people delivering the services to improve performance, all of which will lead to considerably better services being provided to the residents of West Dunbartonshire. The property investment level proposed will provide physical facilities that are more fit for purpose and help guard against potential for adverse commercial impact through reductions in customer appeal that may result from continuing property deterioration. The investment will also increase the value of the individual properties.
- 8.5** The creation of the Trust represents an opportunity for a culture and business shift to a more contemporary approach to competitive delivery of the comprehensive services on offer. The Trust will develop its own internal management processes to face the challenges of the changes that will be necessary to succeed in the constantly developing health and fitness market. This will require commitment and achievements by all the people involved at every level in the business to an extent that may not be possible within the current Council approach to development. The rewards of witnessing the improvements to the people of West Dunbartonshire will be a worthwhile impact observation.

9. Conclusions and Recommendations

- 9.1** It is concluded that by setting up a new Leisure Trust, to which the Council can transfer its Leisure Services operations will achieve considerable Council savings, essential property investment and the delivery of a higher level of service to the residents of West Dunbartonshire, sustaining consumer appeal.
- 9.2** The Trust proposals imply that it can operate within acceptable viability limits and future operating proposals indicate that further improvements can be made to the quality of service and value for money.

9.3 It is recommended that the Committee:-

- (i) Agrees to form West Dunbartonshire Leisure Trust as a company limited by guarantee.
- (ii) Notes that an application will be lodged with OSCR seeking charitable status for the company.
- (iii) Delegates authority to the Executive Director of Housing, Environmental and Economic Development Services, in consultation with the Head of Legal, Democratic and Regulatory Services to enter into on behalf of the Council a business transfer agreement with the Trust, transferring any contracts, equipment, motor vehicles, stock, and distinct intellectual property rights which relate to Leisure Services and providing for the lease to the Trust of 21 leisure and community facilities owned by the Council.
- (iv) Authorise the Executive Director of Housing, Environmental and Economic Development Services, in consultation with the Head of Legal, Democratic and Regulatory Services, to grant to the Trust on behalf of the Council a lease of each of (or, where appropriate a license to occupy) those facilities for no more than 20 years and licences to occupy, for an annual payment of £1.
- (v) Authorise the Executive Director of Housing, Environmental and Economic Development Services, in consultation with the relevant Executive Directors and Head of Legal, Democratic and Regulatory Services to enter into on behalf of the Council a Services Agreement to ensure the continuing provision of leisure services by the Trust.
- (vi) Authorise the Executive Director of Housing, Environmental and Economic Development Services, in consultation with the relevant Executive Directors and Head of Legal, Democratic and Regulatory Services to enter into on behalf of the Council a Transitional Services Agreement for the provision of a number of centralized services to the Trust for a transitional period.
- (vii) Authorise the Executive Director of Corporate Services to make application to Strathclyde Pension Fund for the Trust to gain admitted body status.
- (viii) Recommend to Council that as part of the revenue budget setting process for financial year 2012-13 the Trust receives subsidy of £4.356M from the Council and thereafter the funding allocated to the Trust is determined as part of the agreement of the Trust's annual business plan for the next year.
- (ix) Recommend to Council that as part of the capital budget setting process for financial years 2012-14 the Council commits £350,000 per annum for capital investment in Trust assets

- (x) Agrees to commit £130,000 from the Modernisation Fund to convert the upper floor of Alexandria.
- (xi) Notes the appointment of the four external Directors of the Trust

Elaine Melrose
Executive Director of Housing,
Environmental and Economic
Development

Terry Lanagan
Executive Director of Educational
Services

Date: December 2011

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Appendices: Appendix 1 Financial Analysis
Appendix 2 Legal Agreements Between the Council and
the Trust.
Appendix 3 Risk Analysis
Appendix 4 Equalities Impact Assessment

Background Papers: None

Wards Affected: All